

Email to:

strategyandpolicystatement@beis.gov.uk

28 July 2023

Dear Ofgem Sponsorship Team,

Response to Strategy and Policy Statement for Energy Policy in Great Britain Consultation

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 330-plus members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

Scottish Renewables welcomes the opportunity to respond to the Department for Energy Security and Net Zero (DEZNZ) consultation on its Strategy and Policy Statement for Energy Policy in Great Britain.

We recently welcomed the upcoming change to Ofgem's remit to include net-zero as part of the current Energy Bill. Alongside this introduction, the Strategy and Policy Statement for Energy (SPS) is a very welcome development. Industry has been calling for the publication of the SPS for some time, and this is a positive development for the sector, given the many issues that will need to be addressed to meet our net zero ambitions.

It sets out the government's strategic objectives clearly and the expectations that Ofgem and the FSO should support the delivery of these. We welcome the clear setting out of strategic priorities and policy outcomes, and we support the majority of these. It also supports greater coordination of government's, Ofgem's and the ESO's (and FSO's) efforts; this is something that we have seen more of recently, for example in the delivery of the ASTI framework, and this is a welcome development.

These strategic objectives build on and add to the statutory duties of Ofgem, in particular. However, we believe that the SPS could and should go further in explicitly stating how the government expects Ofgem to manage and prioritise the various objectives, particularly given the new net zero obligation. There may be tensions between Ofgem's various duties, or these duties and the government's objectives and the SPS does not go far enough to make explicit how these tensions should be resolved. For example, the SPS states that it is the government's desired

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policy outcome that network regulation “enables the accelerated delivery, ahead of need, of network infrastructure.” This may be and has been in the past, in tension with minimising the costs to current consumers, who will fund benefits for future consumers. The SPS needs to be more explicit about how Ofgem should resolve this tension to ensure that we achieve *best value*, rather than simply *lowest cost*.

We would like to draw attention to a range of issues that we address below:

- The government has the ambition to achieve a net zero power system by 2035: a target that Scottish Renewables fully supports. However, this strategic policy goal is not referenced in the SPS and 2035 is only referred to in the context of the ambition to have the cheapest wholesale electricity price in Europe. There should be the explicit inclusion of the 2035 net zero power system included in the SPS.
- Language should be made consistent throughout the SPS. In various places, the SPS states that investment costs should be “*proportionate*”, while in other places, investment should be “*at least*” or “*lowest*” cost. These can mean quite different things and clarity should be given to Ofgem.
- Similarly, greater clarity and accuracy is required for areas where the term “*appropriate*” is used. For example: “*[new approaches to network development] are likely to require appropriate adjustments to Ofgem’s regulatory framework*”. Government should give greater direction to Ofgem.

Finally, we note that the SPS could have a large impact on the work of Ofgem and the FSO. It is essential that these bodies can adequately resource to meet these obligations.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

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1. Does the strategy and policy statement identify the most important strategic priorities and policy outcomes for government in formulating policy for the energy sector in Great Britain? If not, please provide details of the priorities that you think should be included.

Yes, we consider that SPS largely sets out the key strategic points. We welcome the following points under **Section One: Enabling Clean Energy and Net Zero Infrastructure**:

- Electricity network infrastructure is delivered at scale and pace, ahead of need, to meet the demands of a decarbonised energy system.
- Achieving government targets for renewable and low carbon deployment, innovation and uptake of clean technologies.
- Network regulation that enables the accelerated delivery, ahead of need, of network infrastructure to accommodate rapidly renewable generation capacity and demand from low-carbon technologies.
- Dramatically reduce timelines for delivering strategic onshore transmission network infrastructure and halve the end-to-end process by the mid-2020s.
- Greater visibility of network data.
- Significant and urgent reform of the connections regime so that new generation and demand projects critical to net zero can connect to electricity networks in a cost-effective and timely manner.

However, there are several issues with the current draft of the SPS that need to be addressed if it is to be fully effective.

Supporting the delivery of targets

The government's Net Zero Strategy, published in October 2021 states that by "2035 the UK will be powered entirely by clean electricity, subject to security of supply"¹. While the SPS makes many references to the net zero transition in general, there is no explicit reference to this target. Given the centrality of this target to wider energy policy, this omission should be addressed by explicitly including it in the SPS.

Similarly, the government has an ambition to secure 50GW of offshore wind capacity, but there is no reference to this in contrast to the targets for the lowest wholesale electricity price in Europe by

¹ Net Zero Strategy: Build Back Greener,
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1033990/net-zero-strategy-beis.pdf

2035 and the deployment of four CCUS clusters by 2030 which are included. The 50GW target should be explicitly referenced for clarity of purpose.

Early action and distribution network

The recognition of the need to deliver the Network ahead of schedule is welcome but all the objectives and outcomes within the SPS cannot be delivered at once. To realise the long-term benefits, in the short term, priority should be given to addressing connection reform, enabling investment in large-scale long-duration electricity storage, and ensuring that the regulatory framework enables and encourages a “*net zero first*” approach to strategic investment in Networks.

It is our view that energy code reform could be a distraction and question whether radical changes are necessary to achieve the desired outcomes compared to other solutions.

In its current form the SPS places the emphasis on Transmission but does not recognise the key role that Distribution will play in achieving a distributed, net zero energy system. The focus of the SPS should be expanded to include a specific focus on the need to accelerate the delivery of additional Distribution infrastructure.

Long duration storage

We welcome recognition of the need for large-scale, long-duration electricity storage policy but there is a lack of recognition of the time taken to construct such projects. This document covers the next five years and does not clarify when storage policy will be published. As the construction of long-duration storage projects can take years, this policy should be published within 12 months to ensure that the lack of long-duration storage capacity does not hamper efforts to achieve a net zero electricity system by 2035.

Best value rather than lowest cost

Historically, Ofgem’s overriding focus on minimising costs to consumers today was the logical approach to a network that was developed reactively in response to need. The establishment of a legal obligation for the UK to achieve net zero by 2050, means that such an approach is no longer fit for purpose. Achieving net zero will require building five times more Transmission in the next seven years than we have in the last thirty. Such an increase in infrastructure cannot be achieved through a short-term reactive approach.

The SPS does touch on the idea of “*best value*” overall, rather than just the lowest cost today. However, there is concern that stakeholders may not be prepared for the trade-offs that may need to be made as we move forward. The SPS should be focused on initiating a shift in Ofgem’s focus to achieving a net zero energy system by the most cost-effective means. Such a shift would ensure that short term cost savings do not come at the expense of long-term value and investment.

Strategic Network Investment

To support the level of grid investment that net zero will require, there is a need to undertake long-term, strategic network design that will support investment in that network at a pace consistent with the achievement of net zero.

The development of the Holistic Network Design and transition from the ESO's Network Options Assessment to the Centralised Strategic Network Plan are welcome developments. It is essential that the HND and CSNP are progressed at pace, with forward planning and adequate investment, to enable greater volumes of low-carbon generation to connect easily and efficiently.

With regards to supporting investment in network infrastructure, the SPS does not articulate a clear recognition of the key role Ofgem plays in maintaining a stable regulatory framework that attracts and promotes the investment needed to hit the government net-zero targets. The SPS should be amended to clearly articulate Ofgem's role in maintaining investor confidence to enable the levels of investment achieving net zero will require.

Competition and economic benefit

There is an overriding sense in the SPS that competition is the best solution to delivering best value. Competition does have a role to play, given the significant levels of investment required. However, to ensure timely delivery there will need to be early clarity on which projects will be subject to competition to maximise consumer benefits, supply chain engagement and innovative design. For example, where the focus is on pace and scale, the TOs are best placed to manage, procure, and deliver projects, rather than introducing a lengthy competitive process.

Additionally, there is a push for increased competition in the network market, particularly in network construction. However, there are concerns that the belief that competition always results in the lowest cost or greatest value may not hold true in this case. In network construction, competition may be counterproductive if all providers are scrambling to use the same limited supply of cables. It is important to consider the longer-term interests of consumers when determining the best value. While there are trade-offs to be made, it is not always necessary to rely solely on competition to achieve optimal results.

Furthermore, maximising the economic and supply chain benefits to the UK of developing our electricity network may not be best delivered by making works contestable as it fragments projects and procurement, bringing uncertainty to supply chain companies. The SPS should make explicit how these tensions should be resolved.

Smart targets

Government have set the Smart target framework² and these targets are viewed as a key enabler for many aspects of the SPS. However, the rollout of smart technology is not progressing at sufficient pace. If smart technology is truly essential, the government should take a more active role in emphasising its importance to consumers and businesses, rather than relying on suppliers to persuade them. We believe that leading by example is crucial, as suppliers are responsible for convincing companies and businesses to adopt smart meters, while customers are being told on the Ofgem website that they don't need one.

2. Does the strategy and policy statement effectively set out the role of Ofgem in supporting government to deliver its priorities? If not, please identify where these expectations could be made clearer.

Clarity of role

While the SPS sets out objectives and outcomes, it is not clear which party is responsible for each objective and outcome - whether it is the Government, FSO, or Ofgem. It is crucial that clear leadership is assigned to each objective and outcome to avoid confusion and ensure accountability. The SPS should be amended to name the lead organisation for each objective and outcome to provide clarity to all stakeholders on where responsibility lies.

We also note that while the Ofwat SPS states “*We expect Ofwat to...*” nineteen times, this phrase and the clear articulation of expectation does not appear in the SPS for Energy. The language of the SPS for Energy should be amended to ensure expectations are clearly and unambiguously articulated.

Reporting and accountability

According to Section 137 of the Energy Act 2013³, Ofgem is required to outline its plans in its forward work programme and report on its progress in its annual report⁴. It is Ofgem's responsibility to outline how the industry will meet the SPS, and by the end of the year, they must report whether or not it was achieved. However, there are concerns about the robustness of this process as Ofgem will have the power to determine whether they have met their objectives with no engagement or challenge from the industry. It is important to note that the SPS is a critical component of the government's energy policy, yet it does not include any formalised mechanisms for industry feedback, other than when they are consulted on a change.

² [Smart Meter Targets Framework: minimum installation requirements for Year 3 \(2024\) and Year 4 \(2025\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/672122/Smart-Meter-Targets-Framework-2022-2025.pdf)

³ [Energy Act 2013 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2013/32/section/137)

⁴ [Ofgem annual reports | Ofgem](https://www.ofgem.gov.uk/about-us/annual-reports)

The government's 2022 **Economic regulation policy paper**⁵ outlines the vision for modernising economic regulation in the utility sectors and a consultation on *The future of economic regulators* is expected this year. This presents an opportunity to assess how regulatory performance is evaluated, taking into account stakeholder feedback. The SPS could serve as a good case study for establishing a mechanism by which industry can provide feedback to parliament other than by being called to a committee.

Resolving tensions in objectives

The SPS sets out objectives and outcomes that the government expects the regulator to deliver. These include removing regulatory barriers to investment in network infrastructure, deployment of multi-purpose interconnectors, encouraging anticipatory investment and enabling competition, all of which are welcome.

While many of these objectives and outcomes push in the same direction, there are areas where there will be tension between the government's priorities, what is being asked of Ofgem, and how Ofgem interprets its statutory duties.

For example, we welcome Ofgem's new statutory remit to support the delivery of the carbon budgets and net zero. Delivering this will require significant investment with the HND alone requiring investment of £54 billion. The required upfront investment will ultimately deliver savings in the long-term through a more efficient network but will require investment in the short term.

While this, and the introduction of the ASTI framework are welcome demonstrations of Ofgem's support long-term investment, the SPS needs to be more explicit about how Ofgem should approach resolving these tensions. We recommend that the Ofcom and Ofwat SPSs be used as a model for providing clarity on the expectations that government has of the regulator in resolving tensions between objectives and outcomes.

Related to the above, we welcome the focus on balancing social costs with other costs and benefits. One social cost is community and visual impacts. The SPS should be clearer about how Ofgem and the FSO should consider these impacts in the development and approval of plans. For example, reducing community impacts can be delivered by undergrounding cables, but this increases costs significantly, as will Community Benefit payments. The SPS should provide clarity on how the tensions between such impacts and costs should be resolved.

⁵ <https://www.gov.uk/government/publications/economic-regulation-policy>

Clarification of language

We welcome the statement that “*Such a significant transformation requires a new approach to network development including; the accelerated rollout of electricity transmission and distribution networks; halving the end-to-end process for onshore transmission network infrastructure by the mid-2020s; reforms to ensure cost effective and timely connections; the adoption of flexible and whole systems solutions; and enabling strategic and anticipatory investment.*”

However, clarity is required on what the government expects when it states that “*These are likely to require appropriate adjustments to Ofgem’s regulatory framework.*” While we recognise Ofgem’s independence from government, such a statement is meaningless without further detail.

The SPS goes on to say that networks deliver investment ahead of need, “*while ensuring that consumer costs are proportionate*”. Again, greater clarity and guidance on how “*proportionate*” is defined should be given as, even with the new SPS, Ofgem may take a view that any expenditure over what is required in the short-term may not be proportionate.

The SPS includes an outcome for the strategic onshore transmission network to “*halve the end-to-end process by the mid-2020s*”. This outcome is ambiguous. For example, the Eastern subsea HVDC Torness to Hawthorn Pit circuit was first recommended in the NOA in 2017, but it was only in 2022 that the project received its initial needs case. It is unclear which part of this is the “*end-to-end process*” and if the 5 years of scoping for this project is included in the strategic outcome. To address this ambiguity, we recommend that a specific target is set, including a definition of when the end-to-end process starts.

Connections process

On the reform of the connections process, we welcome the focus on addressing current delays and long lead times which is essential to connecting greater volumes of low carbon power and delivering the net zero. However, the focus is on forward looking reform. Without retrospective action on the existing queue, these issues will not be fully resolved. The SPS should be amended to set out the government’s expectation on retrospective action.

Compliance and enforcement

We agree that “*it is critical that Ofgem use its compliance and enforcement powers to take timely action where appropriate*”. However, we think Ofgem could do more to provide guidance and open letters to market participants as a precursor to enforcement (where appropriate).

This was the approach Ofgem took historically – they held annual Enforcement Conferences to discuss themes, and offer insight on their regulatory expectations, etc. However, in recent months, it has been stricter with enforcement. While reinforcing compliance is necessary, moving straight

to enforcement may not always be the best option. A collaborative approach can be more effective, especially when rules are unclear, and companies have different interpretations of compliance. The SPS should be amended to ensure that Ofgem fosters a collaborative approach prior to enforcement.

Hydrogen infrastructure

On hydrogen, the SPS states that “*A well-developed network of transport and storage infrastructure is considered to be a central component of the UK hydrogen economy*”. However, this is not included as a policy outcome and the SPS simply states that costs be assessed. If the government believes that a well-developed infrastructure is central, this objective should be made explicit. Furthermore, the purpose of such infrastructure needs to be made explicit, as choices about the role of hydrogen in heating, industry and transport will have a large impact on the choices being made.

EU Cooperation

With regards to the policy outcome, “*There is effective cooperation with the EU at a regulator and technical level to support the aims and obligations of the EU-UK Trade and Cooperation Agreement.*” Effective cooperation is not a policy outcome but a means to a policy outcome: efficient cross border markets. The SPS should be amended to reflect the outcome of efficient cross border markets rather than the method of achieving this.

3. Given the Future System Operator does not exist yet but will need to have regard to the strategy and policy statement once it does, do you consider that we have effectively reflected the Future System Operator’s role in this document? If not, please identify where these expectations could be made clearer.

It is our view that, overall, the SPS covers the key roles of the FSO/ISOP. However, we would draw attention to the points made in answer to Question 2 regarding clarity on which organisation will lead on each objective and outcome plus the need for greater clarity on how tensions between objectives and outcomes should be addressed – these points apply to the FSO as much as they do to Ofgem.

We note that the SPS is necessarily high level for the FSO, given that it has not yet been established. Scottish Renewables welcomes that the government has provided some direction on the FSO remit. However, we still lack a clear understanding of what the FSO remit entails and when it will be properly defined.

The government acknowledges that the FSO is incomplete and intends to reflect on how best to cover it. Considering that the FSO will have a significant role in strategic planning, early clarity and

confidence in this role will be important for investors looking to contribute to the development of the UK's electricity infrastructure.

We are concerned that the FSO will not be able to effectively address the challenges of developing a grid fit for net zero from day one. It is our strongly held view that gaining clarity on the FSO role is crucial. We urge the government to commit to reviewing the SPS once the role is defined to ensure industry does not face the same uncertainty that we have experienced for the past 10 years. We recommend that the government update the FSO direction next year when it is in place, rather than waiting, and there should be the opportunity to review the SPS for the FSO once it has bedded in.

We do note that there is no mention of regional energy system planning. Ofgem has recently consulted on the introduction of regional system planners. The SPS should explicitly state how the FSO should work with these organisations.